

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-015
FOR THE YEAR ENDED
DECEMBER 31, 2007

18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Patricia Moore

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-015

18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

P. Dean Smith, President
Board of Directors
18th DAA, Eastern Sierra Tri-County Fair
P.O. Box 608
Sierra Street and Fair Drive
Bishop, California 93515

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial condition of the 18th District Agricultural Association, Eastern Sierra Tri-County Fair, Bishop, California as of December 31, 2007, and the related statement of operations and changes in accountability, and cash flows-regulatory basis for the year then ended. These financial statements are the responsibility of the 18th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

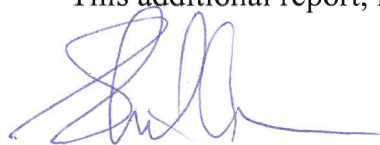
As of December 31, 2007, we were unable to verify that the Fair has capitalized, tracked or depreciated amounts that were funded by the State of California for the purchase, construction, and improvement of the fairgrounds. Additionally, the Fair did not capitalize or depreciate improvements that were donated to the Fair. We identified the omission of capitalizing a material amount of improvements. Due to this material omission, we were unable to satisfy ourselves about the amounts at which Account #194, Leasehold Improvements – Net, (stated as \$1,330,023) in the accompanying statements of financial condition as of December 31, 2007.



In our opinion, except for the effects on the 2007 financial statements of the matter discussed in the third paragraph, the 2007 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 18th District Agricultural associate, The Eastern Sierra Tri-County Fair, as of December 31, 2007, and the results of its operations and changes in net resources for the year then ended, in conformity with the basis of accounting described in Note 1 to the financial statement.

The 18th DAA, Eastern Sierra Tri-County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-015, on the 18th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 18th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in blue ink, appearing to read 'Ron Shackelford', is written over the printed name.

For Ron Shackelford, CPA
Chief, Audit Office

October 3, 2008

**18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA**

**STATEMENT OF FINANCIAL CONDITION
December 31, 2007**

	<u>Account Number</u>	<u>2007</u>
ASSETS		
Cash	111-119	\$ 537,119
Accounts Receivable, Net	131-133	48,712
Construction in Progress	190	49,931
Equipment (Net)	193	23,161
Leasehold Improvements (Net)	194	1,330,023
TOTAL ASSETS		<u><u>1,988,946</u></u>
LIABILITIES AND NET RESOURCES		
Liabilities		
Accounts Payable	212	2,910
Current Portion of Long Term Debt	212.5	15,000
Other Payables	221-226	(1,121)
Deferred Income	228	34,588
Guaranteed Deposits	241	2,300
Compensated Absences Liability	245	62,987
Long Term Debt	250	237,653
Total Liabilities		<u><u>354,317</u></u>
Net Resources		
Net Resources - Junior Livestock Auction	251	6,356
Net Resources - Operations	291	477,810
Net Resources - Capital Assets	291.1	1,150,463
Total Net Resources Available		<u><u>1,634,629</u></u>
TOTAL LIABILITIES AND NET RESOURCES		<u><u>\$ 1,988,946</u></u>

**18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA**

STATEMENT OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Year Ended December 31, 2007

	<u>Account Number</u>	<u>2007</u>
REVENUE		
State Allocation	312	\$ 150,000
Capital Project Reimbursement Funds	319	165,106
Other Non Operating Revenue	340	271,967
Admissions	410	112,225
Commercial Space	415	22,469
Carnival	421	66,926
Food Concessions	422	41,256
Exhibits	430	15,120
Horse Show	440	6,459
Attractions - Fairtime	460	90,818
Miscellaneous Fair	470	56,110
JLA Revenue	476	38,121
Non-Fair Revenue	480	290,958
Prior Year Adjustment	490	609
Other Revenue	495	85,166
Total Revenue		<u>1,413,310</u>
EXPENSES		
Administration	500	263,050
Maintenance and Operations	520-530	291,732
Publicity	540	18,847
Attendance	560	32,373
Miscellaneous Fair	570	27,244
JLA Expense	576	40,985
Premiums	580	33,999
Exhibits	630	60,767
Horse Show	640	12,399
Fairtime Attractions	660	147,964
Prior Year Adjustments	800	1,311
Cash Over/Short from Ticket Sales	850	662
Depreciation Expense	900	98,630
Non-capitalized Millennium Flex	945	172,049
Total Expenses		<u>1,202,012</u>
RESOURCES		
Net Change - Income / (Loss)		211,298
Resources Available, January 1		1,423,331
Resources Available, December 31		<u>\$ 1,634,629</u>

**18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA**

**STATEMENT OF CASH FLOWS - REGULATORY BASIS
Year Ended December 31, 2007**

	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 211,298
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:	
(Increase) Decrease in Accounts Receivable	(12,968)
Increase (Decrease) in Accounts Payables	1,772
Increase (Decrease) in Deferred Income	5,566
Increase (Decrease) in Miscellaneous Liabilities	142
Increase (Decrease) in Compensated Absence Liability	8,769
Increase (Decrease) in Guarantee Deposits	1,700
Increase (Decrease) in Current Portion of Long Term Debt	15,000
Total Adjustments	<u>19,981</u>
Net Cash Provided (Used) by Operating Activities	<u>231,279</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
(Increase) Decrease in Construction in Progress	(19,897)
(Increase) Decrease in Leasehold Improvements (net)	(129,543)
(Increase) Decrease in Equipment (Net)	<u>(20,373)</u>
Net Cash Provided (Used) by Investing Activities	<u>(169,813)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Increase (Decrease) in Long-Term Liability	<u>(85,867)</u>
Net Cash Provided (Used) by Financing Activities	<u>(85,867)</u>
NET INCREASE (DECREASE) IN CASH	(24,401)
Cash at Beginning of Year	561,520
CASH AT END OF YEAR	<u><u>\$ 537,119</u></u>

**18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 18th District Agricultural Association (DAA) was formed on April 15, 1880, for the purpose of sponsoring, managing, and conducting the Eastern Sierra Tri-County Fair each year in Bishop, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. In prior years, the Fair has recorded amounts spent on building and improvements in Account #192, Buildings and Improvements, within its general ledger. However, because the land the Fair operates on is leased and title to all improvements vests with the landowner, our office has reclassified those assets as leasehold improvements in Account #194, Leasehold Improvements. Amounts spent on projects that have not been

placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.75% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>
Petty Cash	\$ 100
Cash in Bank - Operating	7,742
Cash in Bank - Premium	134
Cash in Bank - JLA	7,659
Cash in Bank – LAIF	<u>521,484</u>
Total Cash and Cash Equivalents	<u>\$ 537,119</u>

NOTE 3 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>
Accounts Receivable - Trade	\$ 49,668
Allowance for Doubtful Accounts	<u>(956)</u>
Accounts Receivable - Net	<u>\$ 48,712</u>

NOTE 4 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 consist of the following:

	<u>2007</u>
Leasehold Improvements	\$2,601,424
Less: Accumulated Depreciation	<u>(1,271,401)</u>
Leasehold Improvements - Net	<u>\$1,330,023</u>
 Equipment	 \$ 136,037
Less: Accumulated Depreciation	<u>(112,876)</u>
Equipment - Net	<u>\$ 23,161</u>

NOTE 5 LONG-TERM DEBT

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project on the fairgrounds. The terms of the agreement are as follows:

CCA Phase I Photovoltaic Loan:

Loan Amount	\$ 170,640
First Payment Date	March, 2003
Payment Amount	\$ 1,250
Duration of Loan	132 Months
Interest Rate	Zero, Principle Only
Total Outstanding at 12/31/07	\$ 91,206
 Current Portion at 12/31/07	 \$ 15,000
Long-Term Portion at 12/31/07	\$ 76,206

NOTE 6 RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled

in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 18th DAA Board of Directors
1	Chief Executive Officer, 18th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA

MANAGEMENT REPORT #08-015

YEAR ENDED DECEMBER 31, 2007

18TH DISTRICT AGRICULTURAL ASSOCIATION
EASTERN SIERRA TRI-COUNTY FAIR
BISHOP, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
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Patricia Moore

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
08-015

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

P. Dean Smith, President
Board of Directors
18th DAA, Eastern Sierra Tri-County Fair
P.O. Box 608
Sierra Street and Fair Drive
Bishop, California 93515

In planning and performing our audit of the financial statements of the 18th District Agricultural Association (DAA), Eastern Sierra Tri-County Fair, Bishop, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.); and, (2) areas of non-compliance by the Eastern Sierra Tri-County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 11202, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 18th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 18th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 18th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 18th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 18th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 18th DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, delegated purchasing, cash receipts, and payroll taxes and Form W-2. We have provided twelve recommendations to improve the operations of the Fair. The Fair must respond in writing on how each recommendation will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 18th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

Over the past few years, the Fair has made a significant effort to fully account for its fixed assets, such as buildings and improvements, in accordance with generally accepted accounting principals (GAAP). However, several additional steps need to be taken in order to be in full compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 and the Division of Fairs and Expositions (F&E) Fixed Asset Policy and Procedures Manual.

Prior to 2007, our office found that the Fair had not adequately capitalized and depreciated or accounted fully for buildings and improvements, and equipment funded by the State of California and by private donations within their property ledger or general ledger. We also noted that the Fair had not performed a physical inventory of all assets held by the Fair within the last three years, nor had the Fair identified all movable State property with a permanent stamp or property identification tag, as required by F&E. To address this deficiency, the Fair contracted with a prior Fair CEO to assist in bringing its fixed asset records up to full compliance with GASB No. 34.

However, as of December 31, 2007, our office noted that certain amounts capitalized as improvements by the Fair were not fairly stated. For example, both of the Fair's Phase I and Phase II Photovoltaic systems were understated, as the utility grants provided to the Fair for both phases were not included in the historical cost of either photovoltaic system. Phase I acquired in 2001 was understated by \$6,235; the closed project documents from California Construction Authority (CCA) indicate that Phase II was completed in December 2007 and was understated by \$36,806. Inclusive of our findings, the Fair overstated the historical costs of their Food Alley renovation, Charles Brown #11047, Water Sewer Upgrade, and Lions food booth by \$25,970, while understating the historical costs of Restrooms – Arena and the Water System Improvements by \$14,550. We also found that the Fair overstated their 2007 depreciation expense by \$28,353.

Moreover, the Fair understated the historical costs of the asset line item "Bleacher renovations" by \$5,376, as this amount continued to be reported in Account #190, Construction in Progress, instead of being recorded as part of the completed bleacher renovation improvement.

In addition, our office noted as of December 2007 the Fair uses Account #192, Buildings and Improvements, to account for improvements made to the fairgrounds. However, the land on which the annual fair is conducted is owned by the Los Angeles Department of Water and Power. Therefore, the amounts spent on any structures and improvements should be accounted for in Account #194, Leasehold Improvements.

Recommendations

1. *The Fair should make the necessary adjusting journal entries that ensure all of its fixed asset amounts are properly accounted for in the general ledger and subsequent property ledger. In the future, all amounts accounted for as fixed assets should be reconciled to supporting accounting records prior to closing the accounting period and preparing the year-ending statement of operations (STOP).*
2. *The Fair should ensure all amounts spent on improvements to the fairgrounds are capitalized and recorded in Account #194, Leasehold Improvements, instead of Account #192, Buildings and Improvements.*
3. *The Fair should improve its maintenance of its property ledger. This includes the preparation of ledger cards for all capitalized assets, the reconciliation of ledger cards to the corresponding control sheets, and reconciliation to the general ledger fixed asset accounts. The Fair should record all fixed asset transactions, which meet Department of Finance capitalization criteria (cost of \$5,000 or more, and a useful life of more than one year), in both the property and general ledgers. In addition, the Fair should reconcile the amounts reflected in the property ledger to amounts recorded in the general ledger at least once a year to ensure the ledgers agree.*
4. *The Fair should comply with the Accounting Procedures Manual (APM) and the F&E Fixed Asset Depreciation Manual to ensure that capitalized costs for capital projects, for both donated and acquired assets, are adequately recorded within the fixed asset account.*
5. *The Fair should conduct a physical inventory of its property at least once every three years as required by the Accounting Procedures Manual and the State Administrative Manual.*
6. *All movable property should be permanently stamped, tagged or marked so that it may be readily identified as belonging to the Fair. Choice of method depends on the character and volume of the assets. The Fair should develop policy to determine which types of assets are required to be identified.*
7. *The Fair should periodically perform a review of all construction in progress, to determine whether all costs directly related to construction projects are recorded appropriately within the general ledger.*

DELEGATED PURCHASING

The Fair did not complete a renewal application with the Department of General Services (DGS) for the fiscal year July 1, 2007 – June 30, 2008 as required by DGS in order to extend the Fair's delegated purchasing authority. The Fair did not follow the Accounting Procedures Manual (APM) Section 1, Chapter 2 §2.85, which indicates that "sound accounting practice dictate[s] that all expenditures be supported by detailed documentation," requiring that the Fair mark the purchase order number on the invoice and mark the invoice number on the check; that the CEO initial the invoice unless the purchase order is signed; that the account classification, check number, date, and amount paid be noted on each

invoice; and that an explanation or justification for the expenditure appear either on the invoice or the attached purchase order. In 2007 the Fair made opportunity purchases; however the Fair failed to document whether the opportunity purchase meets or beats the state price. Section 10321 of the Public Contract Code (PCC) states “that local businesses often provide opportunity purchases to local fairs that, for similar things available through the state purchasing program, may be purchased locally at a price equivalent to or less than that available through the State purchasing program.” Therefore, to claim an opportunity purchase, the Fair must separately identify these opportunity purchases, demonstrating and providing copies of bid information or exemption justification when necessary. This was a prior year finding.

Recommendations

8. *The Fair should follow the guidelines as set by DGS who is the only state agency authorized to delegate purchasing authority to other state entities.*
9. *The Fair should develop, record, and maintain a STD 65 Purchase Order for all purchases over \$100.*
10. *The Fair should follow the guidelines as set forth in the PCC § 10321 when making and claiming opportunity purchases, making certain to attach all supporting documentation to the purchase order.*

CASH RECEIPTS

Our office noted weaknesses in the Fair’s internal controls over cash receipts that exposed the Fair to loss. We noted instances where the Fair did not completely identify the composition of payment received from a patron on the cash receipt as either check or currency. Receipts used by the Fairs should be formatted to show the method of payment (currency, check, or credit card), to prevent any cashing of checks or check fraud. Furthermore, without a detailed cash receipt, there is no clear audit trail to ensure that all amounts collected from fair patrons were deposited intact. This was a prior year finding.

Recommendation

11. *The Fair should improve its internal controls over cash receipts by following the guidelines as set forth in the APM section 3.84, Receipt Procedures. All currency and check amounts collected from patrons should be specified on the related receipt. This process provides a clear audit trail to ensure all funds collected are deposited intact.*

PAYROLL TAXES AND FORM W-2

When examining the payroll taxes and Form W-2s our office found that the Fair did not report the additional compensation subject to taxation for the utilization of a state provided vehicle to an employee, as required by State Administrative Manual (SAM) Chapter 8572.4. Additionally, the Fair did not require the employee to complete Form SO-61, State Provided Vehicle for One-Way or Round Trip Commuting, and STD 377, Vehicle Home Storage Request/Permit. This was a prior year finding.

Recommendations

12. *The Fair should comply with the Internal Revenue Service and Franchise Tax Board regulations to calculate and report the additional compensation for the utilization of a state provided vehicle, in addition to requiring the employee who utilizes the vehicle to complete Form SO-61, State Provided Vehicle for One-Way or Round Trip Commuting, and STD 377, Vehicle Home Storage Request/Permit.*

NON-REPORTABLE CONDITIONS

TEMPORARY EMPLOYEES

The Fair allowed two temporary employees to work in excess of the 119-day limitation within a calendar year. According to the APM, “by law temporary employees may not work more than 119 days in a calendar year.” The APM further cites Article VII Sec. 4(l) of the Constitution of the State of California as its basis for this policy. We noted these employees worked between 139 and 251 days in 2007.

Recommendation

The Fair should comply with the APM and State Constitution limitation by ensuring temporary employees do not work in excess of the 119-day limitation.

CREDENTIAL AND COURTESY PASSES

The Fair may have overstated the amount of credential/courtesy passes distributed in 2007 by 1,656. The Fair reported the distribution of 923 courtesy passes and 4,882 credential passes in their 2007 STOP Schedule 4. However, after a review of the ticket manifest our office noted that the Fair had only 3,226 credential/courtesy passes to distribute.

Recommendation

The Fair should develop a process for the tracking of their courtesy and credential passes that will provide a more accurate listing of fair-time distribution, validated by the ticket manifest and any courtesy distribution of paid admission tickets.

CARNIVAL REVENUE

The Fair exposed itself to loss by not fully complying with the rules and regulations set forth in the APM regarding the protection and verification of carnival revenue. The Fair should audit, reconcile, and perform accountability over the carnival contractor by performing a physical inventory of unsold tickets to determine whether the percentage of carnival revenue due the Fair is accurate. This was a prior year finding.

Recommendation

The Fair should exercise better internal control over its practice of verifying percentages of revenue due from the carnival contractor by auditing, reconciling, and performing accountability over carnival daily ticket sales reporting.

CONCESSION REVENUE

Our examination of the Fair’s concession revenue disclosed that the Fair did not have, and does not follow, clear and strict recording, inspection, and audit procedures in agreements and contracts with concessionaires. Best business practices and the APM require

Management Report #08-015**Bishop, California**

concessionaires provide the Fair with adequate daily recording of sales so the Fair can verify the appropriate percentage of receipts due to the Fair. This was a prior year finding.

Recommendation

The Fair should enforce the terms of their contracts that require an “electronic double tape register to be supplied by the contractor” so as to facilitate inspection and audit of daily sales of contracted concessionaire, in order to verify that the percentage of receipts received is appropriate.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



Ron Shackleford
CDFA Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

April 22, 2009

Dear Mr. Shackleford:

The following has been prepared in response to Management Report #08-015 for the fiscal year ended December 31, 2007.

Fixed Assets

The Fair is working closely with the Audit Office to gain compliance in all matters associated with fixed and movable assets.

Delegated Purchases

The Fair will renew its delegated purchase authority with DGS and attempt to comply with all other matters associated with purchases.

Cash Receipts

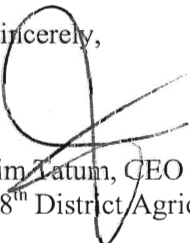
The Fair will improve its controls over cash receipts.


Payroll Taxes and Form W-2

Fairgrounds vehicles will no longer be stored off site.

Please feel free to contact our office if you should have any questions or require further information.

Sincerely,


Jim Tatum, CEO
18th District Agricultural Association


Board President
18th District Agricultural Association

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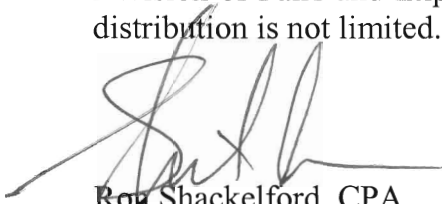
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 18th DAA, Eastern Sierra Tri-county Fair, for its review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 22, 2008 and October 3, 2008. My staff met with management on October 2, 2008 to discuss the findings and recommendations, as well as, other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



for Ron Shackelford, CPA
Chief, Audit Office

October 3, 2008

REPORT DISTRIBUTION

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1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office